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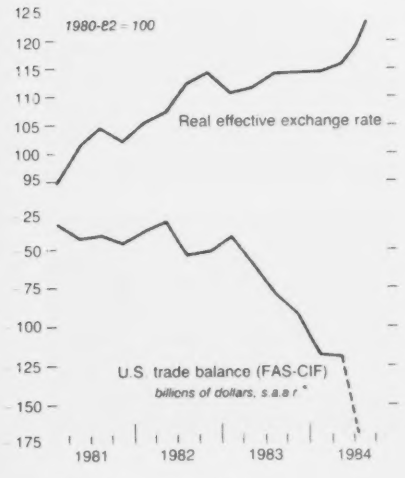
Chart 1

The dollar and the U.S. trade balance



* Quarterly averages except July

Strengthening U.S. competitiveness

U.S. industry is widely seen to be at a competitive disadvantage vis-à-vis foreign rivals, as is suggested by a trade deficit of over $125 billion at an annual rate during the first seven months of this year and by the steep appreciation of the dollar by 40% over the past four years (see Chart 1). There are related anxieties: shrunken exports and sharply increased import penetration, such that some industries do not share fully in the overall U.S. economic expansion; frustration that other nations — especially the newly industrializing countries (NICs) where wages are relatively low — exploit the U.S. market without reciprocal benefits to U.S. interests; eroding U.S. leadership in technology; and, at least until recently, poor productivity performance that has meant a decline in real wages for many working Americans.

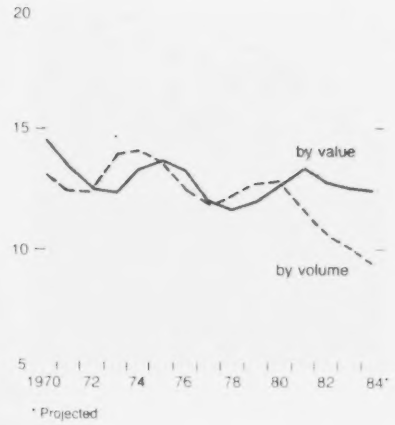
The solution most frequently offered for the competitiveness problems of U.S. industry calls for a basic shift in U.S. economic policies. The logic is straightforward: a speedy reduction of the budget deficit and a substantial easing of monetary policy would prompt a sharp fall in interest rates; in turn, the dollar would trend down to considerably lower levels in the exchange markets, eliminating the price and cost disadvantages of U.S. firms in the global marketplace. There are, however, risks in this approach. The financial markets might interpret the indicated easing of monetary policy as marking a renewed tolerance of inflation. If, as fiscal contraction progressed, interest rates failed to drop sufficiently, the U.S. economy would enter another period of stagflation, setting back growth prospects abroad. And if the competitive pressures on U.S. industry from a strong dollar were to lessen, so too would its incentives for productivity improvement.

A different prescription, advocated by those who believe the competitive problem evidences failure of the free market, relies on government direction of the economy. However, "industrial policy," as practiced in Europe, compounds economic rigidities and inhibits restructuring. In Japan, government has a mixed record in orchestrating technological dynamism. Moreover, previous U.S. experiments like the 1930s Reconstruction Finance Corporation proved largely ineffective, at least in peacetime. Since political allocation of capital looks unlikely to be efficient, the industrial policy debate has moved to the background.

Chart 2

U.S. share of world manufactures exports

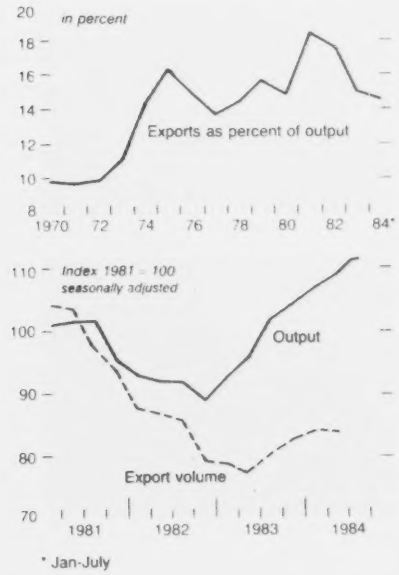
in percent



* Projected

Chart 3

Manufactures output and exports



* Jan-July

Issues of competitiveness, however, are still much to the fore. Twelve months ago, President Reagan established a Commission on Industrial Competitiveness,* which is scheduled to report early in 1985. The Commission is structuring its work under four broad headings: human resources, addressing education and labor productivity; capital resources, dealing with availability, taxation, and cost issues; research and development, including incentive and antitrust questions; and international trade and marketing, in which the objective is not simply a level playing field for U.S. producers in domestic and world markets, but also reform of U.S. trade policies. Constructive reform will promote, rather than impede, structural change — both here and abroad. Such reform is urgently needed in order to realize more fully the potential gains from international commerce in agriculture, manufactures, and services.

Productivity and trade policy initiatives can make vital contributions to national competitiveness and would certainly be good for living standards. Alone, however, they are not sufficient to bring down the trade deficit. Under floating exchange rates, microeconomic successes could drive up the dollar's exchange value, offsetting most of any competitive benefit to the trade balance. The U.S. trade deficit parallels the strength of investment in the U.S. economy amid a relative dearth of domestic savings. In much of the world, by contrast, investment is sluggish while savings are relatively ample. It would be possible to narrow the U.S. trade deficit by cutting back U.S. investment and depressing U.S. economic growth. However, that is a sure formula for worldwide stagnation. Far more constructive is a strategy for U.S. competitiveness that holds the U.S. economy strong, boosts savings at home, and fosters a more positive investment climate abroad — especially in Europe and Latin America. The return of investor confidence in prospects abroad will shift currency preferences, bringing the dollar down to more competitive levels than of late. Renewed confidence also will spur foreign economic growth, so that U.S. exporters will enjoy thriving markets once again.

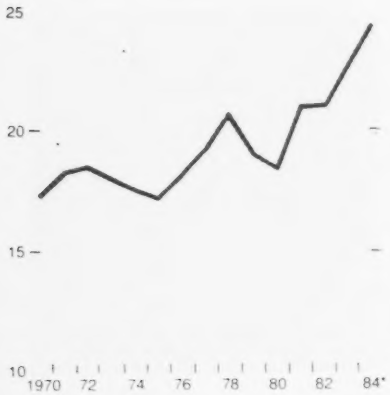
*The Commission is chaired by John Young, chief executive officer of Hewlett-Packard Company. Its twenty-nine members are drawn from industry, labor, finance, and the academic community. Among the Commissioners is Rimmer de Vries, senior vice president of Morgan Guaranty Trust Company, who is assisted in his work with the Commission by Derek Hargreaves, vice president of the bank. The views expressed in this article do not necessarily represent those of the President's Commission.

Foreign trade and the U.S. economy

For twenty years following World War II, foreign trade had little bearing on the overall performance of the U.S. economy. Today, however, global integration means that foreign trade and foreign competition are crucial facts of life for U.S. industry. The competition is severe. Over the past four years, the U.S. share of world manufactures exports has fallen by more than 25% in volume terms (see Chart 2), although dollar appreciation has offset volume effects on the U.S. share in value terms. Dollar strength, global recession, and the LDC debt crisis led to a 25% decline in the volume of U.S. manufactures exports from early 1981 through mid-1983. The export decline was notably steeper than the 12.5% drop in domestic manufacturing output as a whole. This was an abrupt reversal of the previous trend, which had seen export sales grow from 10% of total manufacturing output in 1970 to over 18% in 1981 (see Chart 3). Moreover, in contrast to the dramatic output gains of most other domestic sectors since the end of

Chart 4

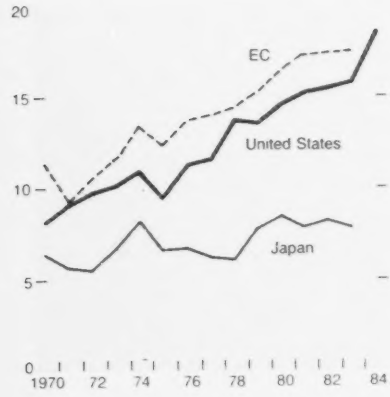
U.S. share of industrial countries' manufactures imports
by volume, in percent



* Projected

Chart 5

*Import penetration in manufactures **
by value in percent



* Value of imports as percent of domestic market measured by the sum of domestic value added and imports
EC data excludes imports from within the Community

1982, the recovery in U.S. manufactures exports has been laggard and incomplete. As recently as the middle of this year, they remained 17% below their 1981 volume. Thus, notwithstanding a big one-month jump in export sales in July, domestically oriented industries have fared much better in the present economic expansion than have firms dependent on the world market.

At the same time, the U.S. market is a magnet for foreign producers, since it offers greater economies in sales and distribution than other single markets. Its demands often determine product design and development strategy of foreign firms. Whereas in 1970 the United States absorbed 17% of all manufactures imported by OECD countries, its share approached 23% in 1983 (see Chart 4). It must be sharply higher this year, in view of the 43% jump relative to last year in the value of U.S. manufactures imports during the first seven months of 1984. Moreover, the import share of the U.S. domestic market has more than doubled since 1970, from 8% to a little under 19% at present. Almost three points of the increase have occurred just in this past year. Though exceptionally rapid in the case of the United States, rising import penetration characterizes most mature industrial countries (see Chart 5). For example, the share of the EC internal market for manufactures claimed by suppliers outside the Community rose from 11% to 17% between 1970 and 1983. The corresponding increase in Japan was much less, from 6.4% to 8.6%.

The imbalance of U.S. trade with Japan and the East Asian NICs was no great problem while that trade remained small in the overall U.S. economic picture. However, the last ten years have witnessed a historic shift of U.S. trade orientation from the Atlantic to the Pacific (see Table 1). Back in 1973 over 30% of total U.S. trade, excluding trade with OPEC, was conducted with Western Europe, against 22% with Japan and other countries of the Far East. By now, Japan and the Far East claim over 29% of U.S. non-OPEC trade, three percentage points above the European share in the first seven months of 1984. The Pacific shift has occurred in both U.S. exports and imports, but is more prominent and sensitive with respect to U.S. imports — the more so as the technological sophistication of imports from Japan and the Asian NICs is rapidly increasing.

During the 1970s the principal U.S. response to a weakened competitive position was devaluation of the dollar. The policy succeeded in holding external imbalances within acceptable bounds, but was accompanied by poor performance of the domestic economy. Loose monetary policies, dollar depreciation, and supply shocks drove inflation above 13% in 1980. Real GNP growth sagged to 2.4% per annum during 1974-81. Unemployment rose considerably above the postwar norm. Real wages declined, especially in after-tax terms. Both capital formation and investment in research and development ebbed. And labor productivity slowed to a 0.8% annual rate of increase, from a 3% average for the earlier postwar years.

Today, the 1970s' pattern has been dramatically reversed. Domestic performance has greatly improved, but the trade deficit has widened to almost 3% of GNP. On the domestic front, industrial production has rebounded 23% over the past 21 months; manufacturing output is 9% above its previous peak; the unemployment rate is down from 10.7% to 7.5%; overall civilian employment is up 6%; and although employment in manufacturing remains 4% below its 1979 peak it is

Table 1

Orientation of U.S. trade

% of total trade (exports plus imports measured FAS), excluding trade with OPEC

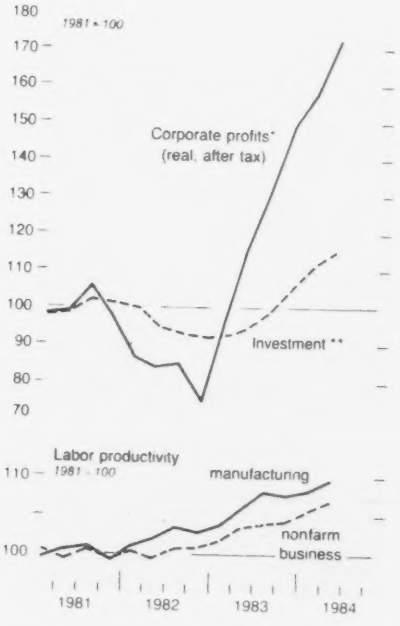
	1973	1981	Jan-Jul 1984
Western Europe	30.5	27.7	25.9
Canada	24.6	20.3	22.7
Japan	13.5	14.0	16.0
East and Southeast Asia*	8.4	10.8	13.3
Latin America**	10.2	13.7	11.2
Other	12.8	13.5	10.9
Total	100.0	100.0	100.0

*Excludes Japan and Indonesia.
**Excludes Ecuador and Venezuela.

Chart 6

U.S. corporate profits, investment and labor productivity

seasonally adjusted



* Domestic earnings of nonfinancial corporations adjusted to remove inventory profits and to put depreciation on a replacement cost basis.

** Gross private nonresidential, volume terms.

up over 9% from its trough. Moreover, high after-tax profits and expectations of attractive future returns have boosted business fixed investment by over 25% since the recession low (see Chart 6). This raises hopes that economic expansion will not be terminated prematurely by capacity constraints — thanks also to the availability of additional supply through imports. In all this, inflation has remained subdued, helped by dollar strength. The continued restraint of wages is especially encouraging. Earnings data and the waning of pattern bargaining — supported by labor's emphasis on job security and its increased awareness of nonunion and foreign competition — point to a new realism in wage demands. Moreover, with determined cost-cutting, productivity edged higher during the period of economic contraction, instead of displaying its customary decline. Since the end of the recession, productivity has risen at an annual rate of 3.4% — and, amid extraordinary simultaneous employment gains, by a surprisingly strong 4.7% in this year's second quarter.

The trade deficit, however, worries many and often is blamed on dollar strength. The causes in reality are more complex. For example, U.S. exports to Latin America plunged by over 40% after credit problems took hold in mid-1982. Despite some recovery in the last year and a half, the result has been a $20 billion downturn in the U.S. trade balance with the region since 1981 (see Table 2). Moreover, during January-July 1984 U.S. imports from the four principal NICs of the Far East ran 74% above 1981 levels, contributing $13 billion to the widening of the U.S. trade deficit. NIC competitive gains owe little to dollar strength vis-à-vis Japanese or European currencies, although this probably has helped Japanese exporters build market share in the Far East. NIC progress has more to do with advances in physical and technological capacity. Accordingly, dollar strength is not the principal source of the U.S. deficit with Latin America or Asian NICs.

Trade with other industrial countries has contributed $64 billion to the overall U.S. trade balance deterioration since 1981. U.S. exports to OECD partners have yet to exceed their 1981 nominal level, while imports have soared. Interestingly, the U.S. bilateral deficit with Japan has widened only $17 billion since 1981, compared with $40 billion vis-à-vis Canada and Western Europe combined. Up to a point, these disparities reflect Japan's "voluntary" export restraints, while U.S. exports have suffered from European protectionism. The trade disparities also mirror economic growth differentials: U.S. real GNP climbed 8.5% from 1981 through second-quarter 1984, less than Japan's 11% gain, but more than triple the growth achieved either in Europe or Canada (see Chart 7).

U.S. economic growth thus has outpaced expansion in its industrial partners by over 1% per annum since 1981, a striking turnaround from the 1970s when U.S. growth lagged partner growth by more than 0.5% per annum. As a result, the growth gap reversal has worsened the U.S. trade balance with OECD partners by as much as $30 billion since 1981.

Trade deterioration has not been confined to manufactures. This year the U.S. surplus in agriculture and raw materials may be little more than $13 billion, barely half the surplus recorded in 1981 (see Table 3). Dollar appreciation has depressed agricultural prices. More important has been the damage inflicted on the dominant U.S. position in world food trade by the European Community's Common Agricultural Policy — not to mention the conse-

Table 2

U.S. trade balances by area

exports measured FAS, imports measured CIF, billions of dollars, seasonally adjusted annual rates

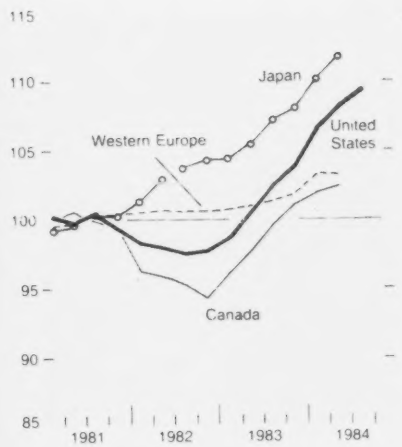
	1979	1981	Jan-Jul 1984
*Industrial countries**	—8.8	—10.5	—72.0
Canada	—5.9	—7.3	—19.5
Japan	—0.6	—18.1	—36.1
Western Europe	9.9	10.9	—17.8
Developing countries	—36.4	—33.4	—55.1
*OPEC***	—29.0	—30.3	—14.4
Non-OPEC	—7.4	—3.1	—40.7
East and Southeast Asia	—6.0	—8.4	—25.3
*Major NICs****	—5.4	—7.0	—21.1
Latin America	1.8	6.0	—14.6
Socialist countries	4.8	4.2	0.5
Total	—40.4	—39.7	—126.6

*Includes unallocated and statistical discrepancy.
**Not seasonally adjusted.
***Hong Kong, Korea, Singapore, and Taiwan not seasonally adjusted.

Chart 7

Real GNP

indices, 1981 = 100



quences of U.S. embargoes in the 1970s that promoted development of alternative supply sources. Likewise, among services, the $32 billion U.S. surplus recorded in 1979 on net income from direct investment fell to $14 billion in 1983. The decline was traceable partly to the translation effects of dollar strength but was compounded by low profits and protracted recession abroad, in contrast with fast-rising profits in the United States.

In sum, little more than a third of the overall downturn in the U.S. trade or current account position can be ascribed to dollar strength. Roughly another third results from laggard economic performance in most other industrial countries, while the remainder stems from the financial problems of Latin America and from the increasing competitiveness of the NICs. Since the trade deficit has these multiple causes, it would not be wise to look solely to dollar depreciation for the remedy. To achieve a major narrowing of the deficit, depreciation would have to be very drastic — on a scale that would be only too likely to provoke a new surge in inflation. The wiser strategy is to build competitiveness through microeconomic reforms that further boost employment and productivity; by overhaul of U.S. trade policies; and by encouragement of policies abroad that promote robust economic growth in U.S. export markets.

U.S. trade deficits, jobs, and productivity

Despite the dramatic gains in U.S. employment during this economic expansion, the unemployment rate remains high by the standards of the 1950s and 1960s. In the public debate, the widening trade deficit usually takes much of the blame. It is said to be responsible for as many as three million lost jobs. That figure may not be far off the mark as a measure of employment adjustment within the export and import-competing sectors of the domestic economy, but it is misleading to claim that wiping out the trade deficit would restore those jobs.

There is a basic difficulty in the trade deficit/job loss argument. Since late 1982, U.S. domestic demand has surged ahead by 13.5%, of which something over two percentage points were met by the increase in the trade deficit (see Chart 8). Some portray this spillover of domestic demand to the outside world via the trade deficit as having held down domestic output and employment. That might have been true while the economy was in deep recession. But by now, without the relief from the external sector, vibrant economic expansion would surely intensify inflationary pressures. Domestic demand would have to be cut back — most likely by still higher interest rates that would curtail jobs in housing, business investment, and the production of consumer durables.

The trade deficit shifts U.S. jobs away from the export and import-competing sectors and toward those activities that are less exposed to international competition, especially toward services. The net effect of the job shift is far from clear and may not harm the long-term national interest. Tolerance of the trade deficit and dollar strength keeps up the pressure on domestic industries to raise productivity and restrain cost increases. Moreover, trade pressures speed up the replacement of outmoded industries by advanced enterprises that are the sine qua non for faster economic growth. Once the trade deficit narrows, the employment drift away from the trade-related sector will probably slow or reverse. Even reversal, however, would be unlikely to bring

Table 3

U.S. trade and current accounts

billions of dollars, seasonally adjusted annual rates

	1979	1981	Jan-Jul 1984
Customs data, CIF valuation			
Merchandise trade balance	—40.4	—39.7	—126.6
Agriculture and raw materials	15.9	23.4	13.0
Fuels	—61.5	—74.1	—55.7
Manufactures	5.2	11.0	—83.9
*Capital goods**	32.0	41.7	9.6
*Auto vehicles and parts**	—10.1	—12.3	—36.2
*Consumer goods**	—19.4	—19.7	—47.8

	1979	1981	First half 1984
Balance of payments basis			
Merchandise exports	184.5	237.1	217.1
Merchandise imports	212.0	265.1	320.2
Trade balance	—27.5	—28.0	—103.1
Net services and transfers	26.6	34.3	14.9
Direct investment income	31.8	28.5	15.8
Other investment income	—0.6	2.0	7.0
Travel	—1.0	0.2	—3.6
Other services	2.0	10.4	4.2
Transfers	—5.6	—6.8	—8.5
Current account balance	—1.0	1.9	—88.2

*Estimated CIF valuation, not seasonally adjusted.

back the old jobs. Instead, different jobs will open up in the trade sector of the future. Thus, actions on the trade front are unlikely to solve the U.S. unemployment problem.

Nor does the solution lie in stepped-up government intervention in the labor market. Public-sector job programs have a poor record in creating productive employment. Equally unpromising is the approach adopted in Europe. There, with the partial exception of Britain since the late 1970s, the stress has been placed on reduction in the workweek, work sharing, "employment protection" legislation, and incentives for early retirement. Employment results have been generally dismal, with no net job gains in Europe for over a decade despite sharp currency depreciation and more balanced trade positions than the United States in the recent years (see Chart 9).

Economic expansion is the one sure way to create jobs. Yet, it is widely feared that expansion that leads to a substantial further fall in unemployment will soon rekindle inflation. Heavy unemployment is not, however, the inevitable trade-off for price stability: in the 1950s, U.S. inflation was minimal while the unemployment rate averaged 4.5%. The key to enduring employment expansion lies with better-functioning labor markets and sustained realism in wage bargaining. On the latter score there are encouraging pointers — labor settlements, for example, that provide for lower wage scales for new hires and which can therefore support greater employment.

Further employment gains should be obtainable from relaxation of such government-imposed wage rigidities as minimum-wage legislation and the Davis-Bacon "prevailing wage" requirements in federal construction contracts. Also helpful would be additional incentives for private-sector training and reform of unemployment insurance to emphasize reemployment. Finally, labor compensation geared to output and profits — perhaps along the lines of the Japanese bonus system — can help stabilize employment over the economic cycle. Together with employee involvement schemes, such as are being pioneered right now in the auto industry, bonus plans also encourage worker collaboration with management in boosting productivity.

There are grounds for optimism on the U.S. productivity outlook: sustained containment of inflation will enable U.S. industry to focus its energies on development of new products and technological innovation, rather than on short-term financial gain; soft or stable energy prices have positive implications for the productivity of labor and capital; the labor force is gaining in work experience; and business investment is being stimulated by reduced capital gains taxes, generous depreciation schedules, and the tax-credit-assisted snapback in research and development.

It is the major objective of the Commission on Industrial Competitiveness that these positive conditions be reinforced. The government has to live up to its key funding responsibilities for basic research and should review anti-trust impediments to cooperative research in the private sector, especially where the research has only indirect promise of commercial payoff.

Additional savings incentives and tax reforms are needed to correct the recognized bias of the U.S. tax system favoring consumption against saving, for example, through deductibility of consumer interest payments. Such deductibility raises the level of pre-tax interest rates needed to achieve any given degree of overall credit constraint and thereby increases the cost of capital to U.S. industry.

Chart 8

U.S. domestic and external demand

indices, 1981 = 100

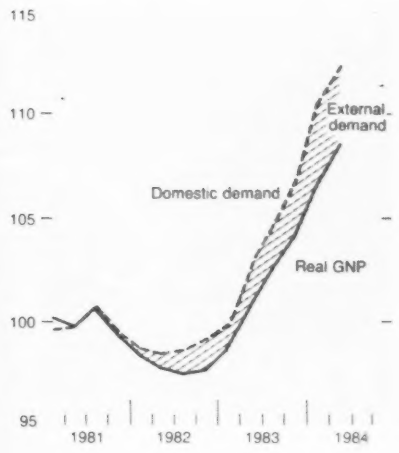
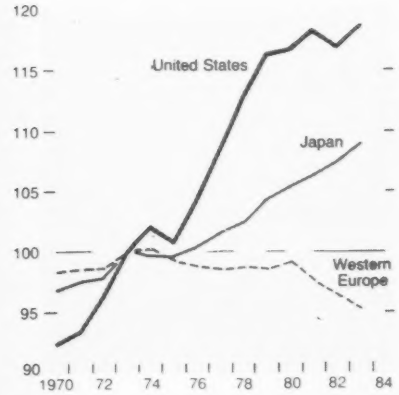


Chart 9

Employment

indices, 1973 = 100



U.S. industry would further benefit by gradual reduction of the budget deficit to release savings for the private sector. But it would be counterproductive to undo supply-side tax cuts in the name of deficit reduction since they are crucial incentives for business investment and technological advance. There is, in fact, ample scope for improvements in the business tax code, notably to provide rational allowance for inflation and to even out its extremely unequal incidence on different classes of investment. The existing revenue code, moreover, favors or excuses from taxation myriad special classes of income or outlay. Elimination of such favors — even where, taken in isolation, they serve accepted goals — would help narrow the deficit and, at the same time, permit another major reduction in marginal tax rates.

Further deregulation also can make a major contribution to U.S. competitiveness via savings in financing and other costs faced by U.S. industry. In the nonfinancial field, there are savings yet to be won through deregulation of railroads, trucking, and some professional and public services. Significant efficiency gains may be realized, for example, through private contracting for state and local public services. In the financial arena, new technology and the evolution of market needs have rendered obsolete the regulatory strictures and structures that are the legacy of the Great Depression. Much piecemeal liberalization has been accomplished since the 1960s. But momentum for further deregulation faded following Continental Illinois' difficulties, despite the illogic of blaming problem loans on deregulation. As the issue is rejoined, it should be remembered that much of the remaining segmentation in the U.S. financial system serves only to shelter inefficiency and to hobble U.S. institutions that must compete in global capital markets.

Overhaul of trade policies

The rise of new industrial powers and the disquieting trend in the U.S. trade deficit call for basic overhaul of the nation's trade policies. The postwar trading system was designed primarily to govern the international commerce of the United States and Europe, whose philosophies of economic management had much in common. Even so, few governments felt able to apply free-trade principles to agriculture, while services were deemed neither important nor suitable for liberalization. Accordingly, the General Agreement on Tariffs and Trade (GATT) and successive multilateral negotiations in the 1960s and 1970s were devoted largely to liberalization of trade in manufactures.

Today, interests have changed. The United States looks not only to Europe in its external commerce and security interests, but also to Japan, the Asian NICs, and Latin America. In addition, good behavior in international trade matters is fast disappearing. Through state enterprise and intervention, governments unfairly favor their domestic industries. Agricultural protection and overproduction are widespread and embitter trade relations among the major nations. And the omission of service activities from GATT rules is inconsistent with their growing predominance in mature industrial economies; their omission is a particular handicap to the United States, whose export earnings from business-related services are exceptionally low in relation to GNP despite the well-documented vigor of this sector in the domestic economy.

Moreover, during the past decade, U.S. trade policy decisions have de-

veloped a destructive drift: the United States now is fully as protectionist concerning manufactures imports as is the European Community. Both acknowledge protecting about one-third of their domestic industries. That is a much higher proportion than is officially the case in Japan. There, however, unofficial barriers help keep import penetration low.

The import relief remedies applied in recent years by the United States and others, have been very costly in economic terms. At one time, remedies usually took the form of tariffs. These were visible, openly debated, and collected revenue for the government. Nowadays, import restriction often is by quota or "voluntary" restraints on the part of foreign exporters. The latter arrangements — limiting Japanese autos, for example, and now to be applied more extensively to steel — are negotiated outside any statutory framework. Either form of quantitative limit alleviates adjustment pressures on the protected party; and the possession of access rights under quantitative restraints confers windfall benefits on foreign exporters and their distributors. These unintended beneficiaries in turn acquire a stake in long-term protection. Another failing of quantitative controls is their potentially adverse impact on intended beneficiaries. The "protected" firms take the full force of any downturn in demand that may occur for cyclical or structural reasons, whereas foreign suppliers are little affected unless the controls are further tightened. Tariff protection, by contrast, ensures that domestic and foreign suppliers share the burden of any decline in demand and also helps the domestic group rebuild market share if and when it regains competitiveness.

The sharp increase in import penetration of the U.S. market has tended to concentrate the actions of lobbyists and policymakers on containment of imports, although the protectionist course conflicts with the deeply held beliefs of the Administration. Attempts to rally the opposing U.S. consumer and exporting interests have failed to stem decisively the erosion of a constructive U.S. trade posture.

Enlightened U.S. policy must start from the fundamental objective, not of curtailing benefits, but of increasing the nation's gains from international trade. Accordingly, reform of U.S. trade law should not seek to close off the U.S. market to low-cost foreign suppliers. Their penetration of the U.S. domestic market is not exceptionally high by international standards. It should logically increase with the economic development and industrialization of Asian and Latin American countries that is a long-standing goal of U.S. foreign policy.

The case for pursuing maximum economic gains from trade cannot always be expected to override short-term considerations of political expedience. When protection must be granted, it is vital it be convincingly temporary. At present there is no deterrent to demands for increasing barriers to imports or repeated renewals of relief. The positive approach would be to toughen injury standards and to require formal appraisal of consequences to users and consumers of any relief that may be recommended. Indeed, for repeat petitions, the injury test should be replaced by a requirement that net benefit to the nation be demonstrated from continued protection. Introduction of a strong concept of net benefit would be a giant step forward in U.S. trade law. A start also needs to be made on the conversion of quotas and voluntary restraints into tariffs, whose proceeds could be earmarked in whole or in part for adjustment assistance.

Adjustment should be a basic

condition for protection. An effective program usually involves concessions by stockholders, creditors, and labor. As is evident in the thinking of the U.S. International Trade Commission in its recent recommendation on the steel industry, wage concessions are particularly necessary where wage levels stand far in excess of competitive rates. More questionable is any automatic conditioning of protection upon an industry's commitment to modernize. Time changes the mix of industries and firms that are or can become competitive: modernization requirements may amount to sending good money after bad. Facilitating the orderly phase-down of troubled firms and the transition of their workforce to alternative employment then becomes the rational aim of adjustment. That may well be the case for some firms in the domestic textile industry, where the Multi Fiber Agreement is proving unworkable. The agreement involves immense economic costs for consumers and is more than a minor irritant in North-South relations. Of course, any new adjustment assistance program should not simply be unemployment compensation by another name. Rather, it should rigorously emphasize worker retraining and relocation.

Correcting the present defensiveness of U.S. trade policy requires restoration of a dynamic prospect for U.S. exports. Export promotion efforts should concentrate on lessening information costs and administrative impediments to those U.S. firms that possess unexploited comparative advantage in the world market. In that light, export promotion via tax breaks or subsidies to U.S. exporters is costly and not reliably effective, although it can sometimes force elimination of foreign subsidies. Greater payoffs can be achieved by scrapping those controls on exports that are ineffective for national security or foreign policy objectives. In the application of controls and embargoes, there is particular need for realism about military criticality and rival supplier capability in high technology, where the extraterritorial reach of U.S. controls alienates foreign governments to the detriment of U.S. commercial interests.

The United States must mount a coherent assault upon unfair practices by foreign competitors. These practices include the diversion into the U.S. market of products excluded from others; the assertion of local-content requirements abroad; counterfeiting and commercial espionage; and the abuse of the special advantages that nonmarket economies, nationalized industries, and government-favored firms derive from nationalistic public procurement policies or from subsidized credit, labor, and materials. Particularly threatening, in the eyes of U.S. industry, is the foreign targeting of high technology.

There are issues to be resolved, not only on manufactures, but also concerning agricultural protection and barriers to trade in services. Here, the obstacles to trade are principally subsidies, quantitative restrictions, and regulations that lack clarity. With respect to services, it is encouraging that, under OECD auspices, considerable progress now is being made by the major industrial countries to define the conceptual issues and to identify the important barriers to trade. Services liberalization also is of interest to some LDCs — for example, India and Korea in construction engineering and Singapore in the financial sector.

For most developing countries, the primary objective is to secure access to industrial-country markets in order that export-oriented development strategies can work. These strategies rest upon the LDCs' com-

parative advantage in light manufactures and some basic industrial products. The mature industrial countries, however, will not accept still further specialization in high technology, communication, and service activities unless the LDCs offer meaningful concessions of their own. They will be expected to open their markets to advanced industrial products and foreign technology. They also must accede to an explicit code of conduct governing private direct investment and associated domestic content and export requirements. In particular, rapidly advancing NICs will have to forego their existing exemption from certain GATT obligations on the outdated claim of balance of payments need. "Graduation" and its attendant responsibilities cannot be shirked indefinitely if the NICs want to retain access to markets in the older industrial countries.

Reversing the worldwide tide of protectionism will take determined U.S. leadership. That is being brought to bear in several directions: for example, in negotiations toward a free-trade agreement with Israel; the suggestion of a more limited arrangement with Canada; and talk of a wider Pacific Basin opening, to include Japan, the Asian NICs, and Mexico, as well as Canada. Bilateral, regional, or sectoral approaches, however, are in principle discriminatory. Sooner or later, there is no adequate substitute for global negotiations, in particular to get Europe fully involved. The United States and Japan pressed the need for such global trade talks at this year's economic summit in London. Discussion has continued in less structured settings. Representatives from both the major industrial nations and from some of the NICs met this month in Rio de Janeiro to continue the process of defining negotiable issues and of broadening the spectrum of countries interested in liberalization. While still some way from a definite schedule or an agreed agenda, the U.S. administration is optimistic that multilateral negotiations can be formally launched during 1985. In total, the constructive statements of national leaders — especially President Reagan's address before this month's IMF/World Bank annual meetings — and the recent flurry of informal activity signify that in important ways the new trade round has already started.

In the effort to pry open markets abroad that are closed to U.S. exporters, the most potent bargaining tool available to the United States is the threat to limit foreign access to the vast U.S. market. Of course, the access card has to be played judiciously, because of the risk of provoking retaliation and the loss of all benefits from trade. But U.S. interests will continue to suffer unless offending competitors understand that unfair practices will be penalized. Trade has to be two-way, or it will wither.

Trade imbalance and global prosperity

The United States can do much to improve the competitive position of its industry by microeconomic reforms and overhaul of trade policy. Such steps, however, will not do much to rein back a trade deficit that is fundamentally a reflection of macroeconomic imbalances worldwide. Massive trade imbalances have been a feature of the world economy for over a decade: surpluses at various times for OPEC, the Netherlands, Switzerland, and Japan; and deficits most of the time for LDCs. In recent years financial concerns have prompted many countries facing trade deficits to curb them at the sacrifice of economic growth. The United States has

Table 4

The U.S. trade locomotive

	Exports to U.S.		Exports to other countries,
	1983, as % of country GNP	% change,* Jan-Jul 1984	% change*, Jan 1984 to date**
Germany	1.9	39.8	—1.9
France	1.2	39.2	0.3
United Kingdom	2.7	20.5	1.4
Italy	1.5	46.3	—11.6
Canada	16.5	31.6	—1.3
Japan	3.6	45.9	6.3
Korea	9.5	47.3	15.5
Taiwan	22.5	45.7	16.9
Argentina	1.3	33.6	16.5
Brazil	2.4	57.3	14.7
Mexico	11.6	12.1	37.6

*From same period of 1983, in dollar terms.
**Trade data for the period Jan-Jul, except for Italy and Argentina (Jan-Jun), and Mexico (Jan-May).

wound up inheriting those deficits.

Currently, the world economy exhibits massive imbalances not only in U.S. trade but also in the heavy unemployment and feeble economic growth of Europe and Latin America. It makes little sense to exacerbate these latter problems by choking back U.S. imports for the sake of quick reduction of the trade deficit. That would be a severely deflationary blow to the rest of the world. Right now, and for a considerable period ahead, the world at large is critically dependent on the continuing tonic provided by the U.S. trade deficit. The external spillover from U.S. domestic demand since 1981 is equivalent to almost 1.5% of total rest-of-world output. It thus constitutes a major fillip to flagging autonomous demand in foreign economies. Indeed, it supports a major fraction of the modest overall growth that Europe is experiencing (see Table 4). Similarly, exports to the United States help developing countries to shift from overdependence on foreign borrowing to export-based development. Should the U.S. economy falter before other industrial and developing countries are able and willing to pursue active growth policies, the world economic outlook would be bleak. The world needs a continuation of market-oriented, noninflationary growth policies in the United States, not stagflation.

Restoration of economic dynamism in Europe depends above all upon the development of a healthy business climate in which investment opportunities can stand comparison with the competing attractions of Asia and the United States. At present, Europe suffers heavy taxation, crippling regulation, inflexible labor costs, and barriers to mobility. These rigidities will not be overcome quickly, although some constructive first steps have been taken in Britain, France, and the Netherlands. Europe's economic woes are compounded by extreme fiscal austerity, notably in Germany. Europe has rightly lost faith in public spending as a growth stimulus. But its emphasis on curbing fiscal deficits is not a sufficient formula for energizing growth, since it presumes investment will substitute spontaneously and sufficiently for public and private consumption. However, even if European interest rates can be lowered through reduced fiscal deficits, profit potential looks inadequate to generate robust business investment. U.S. experience strongly suggests that, in fiscal matters, Europe's priority need is for incentive-oriented tax cuts, the most effective means to spur investment and employment.

Although Japan's economic growth has picked up this year, thanks mainly to strong exports and an investment upturn, Japan displays a long-standing excess of domestic savings over investment which seems intractable under existing priorities. Despite the very high personal savings rate and the decline in the business sector's propensity to invest in Japan since the early 1970s, the government persists with spending restraint to curb the budget deficit. This fiscal stance holds down Japan's domestic economic growth and breeds outsize trade surpluses that cannot be corrected by trade or financial liberalization alone. Yet it is far from true that Japan lacks worthwhile investment opportunities at home. Although its dynamism in technology and productivity is widely admired, Japan's physical infrastructure hardly matches its industrial prowess. The need for stepped-up investment in housing, roads, sewage systems, and environmental conservation is widely felt, but divides the ranks of the ruling Liberal Democratic party. Once priorities shift away from deficit containment and toward enhance-

ment of the quality of life, Japan's economic performance should be stronger and better balanced, with less tendency toward chronic trade surpluses.

Growth in industrial countries is helpful but not sufficient for healthy growth in the developing countries, as is clear from the contrasting records of the Asian NICs and Latin America. Much has been accomplished in overcoming the crisis aspects of Latin America's debt troubles. The region's external adjustment has been remarkably fast, at first thanks to import compression and substitution but this year helped greatly by strong U.S. demand for Latin America's exports. The challenge now lies in getting Latin America's economic growth back up to a pace that will reverse its continuing declines in per capita incomes and employment. Growth will not be possible without the support of foreign creditors, but their ability to furnish new credit is strictly limited, especially on the part of capital-constrained commercial banks. Latin America's long-term growth potential is best pursued by domestic reforms to create a favorable climate for investment and exports. That would attract resources from abroad, including both repatriated flight capital and new capital inflows from foreign direct investors, the latter adding the bonus of modern technology.

In sum, the key U.S. export markets present an environment that for some time to come is more conducive to a widening U.S. trade deficit than to its narrowing, especially following the new surge of the dollar. Still, while world economic recovery remains patchy, it makes no sense at this time to jeopardize the crucial locomotive power of the United States. That is the big risk that is posed by unduly sudden or severe contraction of the federal budget deficit. If the dollar were then to fall sharply, the Federal Reserve would be caught between the risks of validating an uprush in inflation and those of throwing the U.S. economy into a nosedive. Besides, not only could severe deficit reduction fail to yield as much of a decline in U.S. interest rates as proponents assume, but also any parallel lowering of European interest rates could prove a disappointing stimulus to economic growth in Europe. There, as noted earlier, economic expansion is hamstrung by structural problems.

As economic expansion matures, however, inaction on the budget deficit also would prove unwise. The economy has finite resources, even with the addition of imports. Consequently, hard choices cannot be avoided.

Gradualism on the budget issue offers the best chance to keep the economy to a growth path that makes reasonably full use of capacity without excessive price and wage pressures. In this spirit, the recent down-payment package is an encouraging start. Another installment should be a first priority after the November election, with emphasis on holding military spending to the pace actually necessary for a strong defense; containing explosive costs in medicare and middle-class entitlement programs; and tax reform that enhances revenues by broadening of the base rather than by higher tax rates on personal incomes.

The overriding challenge for policymakers in the industrial countries is to sustain and strengthen their economic growth, without which there can be no solution either to the unemployment problem worldwide or the financing difficulties of the developing countries. Ideally, as Europe and Japan find themselves ready and able to pursue more expansionary policies, the United States will move to the less stimulative fiscal stance that will keep the

U.S. economy on course for a "soft landing." As investment opportunities brighten in Europe, Japan, and the developing countries, the present concentration of international capital flows into the United States will diminish and the U.S. trade deficit will narrow. With the shift of investor preferences, the dollar would be expected to give up some of the strength it has displayed in recent years — but not necessarily in the immediate future: in parts of the world where confidence has been lacking for some time, the rebuilding of a favorable investment climate will not be quickly accomplished. In the meantime, provided the United States espouses tax, savings, and productivity reforms along the lines of those recommended by the Commission on Industrial Competitiveness and also pushes forward its initiatives to open up the world trading system, U.S. industry will have the opportunity to rebuild competitiveness and become fully adapted to the rigors of the world marketplace.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
August 3	124.7	96.6	110.5	91.0	84.3	107.3	87.1	88.1	103.9	89.3	103.6	77.1	107.5	93.4	97.1	84.5
10	124.5	96.7	111.2	91.6	84.2	107.1	87.1	88.2	103.8	89.1	103.7	77.0	108.0	93.5	97.3	84.6
17	123.9	96.8	111.6	91.6	84.4	107.3	86.6	88.2	103.7	89.3	103.9	76.5	108.9	93.5	97.1	84.4
24	123.6	97.1	111.7	92.8	84.3	107.4	86.4	87.6	103.8	89.7	103.7	76.5	109.4	93.7	97.1	84.6
31	123.7	97.3	111.9	92.2	84.4	107.3	86.3	87.6	103.7	89.5	103.6	76.4	109.5	93.7	97.1	84.9
September 7	125.6	97.0	111.4	91.6	83.9	106.7	86.5	87.3	103.7	89.4	103.3	76.7	108.7	93.6	97.4	85.3
14	126.8	96.6	111.6	92.0	83.5	106.2	86.2	87.9	103.3	89.1	103.0	76.9	108.9	93.2	97.4	85.4

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.5	105.3	98.8	101.3	91.5
1983																
September	114.1	104.4	94.9	101.0	95.1	98.3	99.5	94.4	100.6	90.8	101.1	89.5	105.7	97.7	103.3	92.5
October	113.2	103.3	97.4	102.3	95.5	98.9	99.7	92.5	101.4	90.8	101.0	89.1	105.9	98.4	102.6	92.4
November	114.4	103.2	97.4	104.0	95.4	97.7	100.0	93.3	100.8	90.8	100.2	89.6	105.8	96.6	102.4	93.3
December	115.5	103.0	98.5	103.8	95.5	97.3	99.9	92.1	100.4	90.3	99.7	90.5	106.4	95.6	101.5	94.1
1984																
January	116.1	103.6	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.3	101.3	95.1
February	114.1	103.4	97.7	107.4	95.5	97.7	100.0	91.9	102.9	90.0	101.2	93.0	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.7	103.7	90.5	101.6	93.9	103.9	96.2	101.0	95.7
April	113.0	101.4	100.4	105.2	96.6	98.0	101.2	89.8	103.1	90.1	101.4	95.5	103.2	95.5	101.0	95.6
May	115.9	100.4	99.1	105.4	96.4	97.1	101.2	90.3	102.5	89.6	101.0	96.2	101.9	95.6	101.8	95.8
June	116.6	99.7	97.7	103.5	97.3	97.2	101.4	89.6	103.0	89.5	101.4	95.6	101.2	97.2	101.3	95.5
July	120.2	99.2	95.3	100.6	97.3	96.6	102.1	89.0	102.5	89.5	100.9	95.2	98.9	96.8	99.3	96.5
August	120.0	100.9	95.6	102.7	97.4	96.1	101.7	89.3	102.0	89.2	100.7	94.6	99.3	97.1	98.7	96.8

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	1982	1983	1984						
		Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug
Eurodollar	*overnight*	12.87	9.25	9.50	9.38	10.13	10.25	10.38	11.25	11.75	11.50
	one month	13.31	9.12	9.69	9.88	10.44	10.63	11.06	11.75	11.50	11.69
	three months	13.75	9.19	9.81	10.13	10.63	10.94	11.75	12.13	11.81	11.88
	six months	14.81	9.50	10.06	10.38	10.94	11.25	12.50	12.63	12.25	12.13
	twelve months	14.75	9.62	10.37	10.81	11.44	11.75	13.63	13.50	12.75	12.63
Euro-Canadian dollar	*one month*	15.37	10.00	9.12	9.63	10.00	10.00	10.69	11.75	12.44	12.13
	three months	15.37	10.00	9.50	9.81	10.38	10.50	11.38	12.13	12.75	12.13
	six months	16.37	10.13	9.75	10.00	10.69	10.94	12.31	12.69	13.06	12.38
	twelve months	16.37	10.25	10.00	10.38	11.19	11.44	13.38	13.50	13.25	12.63
Euro-French franc	*one month*	15.75	23.00	12.12	16.00	12.94	11.94	12.00	11.81	11.38	10.88
	three months	17.00	24.00	12.19	17.25	14.38	13.13	13.19	12.31	11.75	11.88
	six months	18.00	22.00	12.31	16.75	15.13	13.88	14.19	13.25	12.69	11.19
	twelve months	18.25	19.75	12.62	16.13	15.88	14.88	14.94	14.56	13.63	12.69
Euromark	*one month*	10.44	5.87	5.25	5.69	5.50	5.44	5.63	5.56	5.25	5.31
	three months	10.50	5.87	5.87	5.81	5.56	5.63	5.94	5.88	5.75	5.50
	six months	10.56	5.94	6.12	6.94	5.75	5.75	6.25	6.19	6.13	5.88
	twelve months	10.25	6.00	6.37	6.19	6.13	6.19	6.81	6.75	6.56	6.19
Euro-Dutch guilder	*one month*	10.75	5.12	5.81	5.94	6.06	5.75	5.94	5.94	6.13	6.06
	three months	10.75	5.19	6.00	6.00	6.06	5.94	6.13	6.13	6.38	6.25
	six months	10.75	5.38	6.25	6.06	6.19	6.06	6.88	6.44	6.69	6.56
	twelve months	10.75	5.63	6.37	6.44	6.50	6.44	6.94	6.94	6.88	6.81
Euro-Swiss franc	*one month*	8.87	2.81	3.37	3.44	3.50	3.31	3.94	4.19	4.81	4.50
	three months	9.25	3.25	3.75	3.63	3.63	3.63	4.06	4.44	4.88	4.69
	six months	9.25	3.44	3.94	3.88	3.81	3.94	4.44	4.56	5.06	4.81
	twelve months	8.50	3.44	3.94	4.13	4.13	4.19	4.75	4.75	5.06	5.00
Eurosterling	*one month*	15.37	10.56	9.12	9.13	8.75	8.56	8.94	8.81	12.25	10.75
	three months	15.69	10.44	9.31	9.19	8.88	8.81	9.81	9.44	12.25	10.69
	six months	15.69	10.31	9.50	9.31	9.06	9.06	10.44	9.94	12.19	10.63
	twelve months	15.37	10.31	9.81	9.50	9.31	9.38	10.94	10.56	12.13	10.75
Euroyen	*one month*	6.12	6.75	6.25	6.88	6.19	6.00	6.38	6.00	6.13	6.38
	three months	6.12	6.75	6.31	6.56	6.19	6.19	6.38	6.19	6.31	6.31
	six months	6.87	7.10	6.38	6.50	6.25	6.25	6.44	6.31	6.31	6.31
	twelve months	6.87	6.81	6.44	6.63	6.38	6.31	6.56	6.50	6.50	6.50
European currency unit	*one month*	14.63	12.44	8.63	9.00	10.00	8.81	9.00	9.00	9.31	9.06
	three months	14.75	12.31	9.06	9.31	10.00	9.06	9.38	9.31	9.63	9.31
	six months	15.00	12.00	9.44	9.63	10.00	9.56	9.88	9.81	10.06	9.94
	twelve months	14.56	11.19	9.63	9.94	10.13	10.00	10.25	10.25	10.31	10.25

International bond issues — by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Aug	
				Jun	Jul	Aug	1984	1983
Eurobonds	**31 616**	**51 645**	**48 501**	**4 991**	**4 232**	**7 637**	**46 808**	**31 345**
U.S. dollar	26 830	43 959	38 428	4 276	3 343	6 812	37 943	25 106
Canadian dollar	634	1 201	1 039	161	156	142	872	672
German mark	1 277	2 588	3 817	276	251	378	2 868	2 986
British pound	501	748	1 947	41	198	157	2 111	895
Japanese yen	368	374	212	43	—	—	348	148
European composite units	309	1 980	2 019	108	194	148	1 865	952
Other	1 697	795	1 039	86	90	—	801	586
Foreign bonds	**21 369**	**26 397**	**27 822**	**1 564**	**1 847**	**1 442**	**18 863**	**19 054**
U.S. dollar	7 552	5 946	4 545	19	150	100	3 537	3 265
German mark	1 310	2 952	2 671	110	201	—	1 219	1 929
Dutch guilder	481	956	1 053	48	94	92	748	748
British pound	746	1 214	811	117	89	85	918	324
Swiss franc	8 285	11 432	14 299	1 147	654	811	9 380	9 938
Japanese yen	2 457	3 418	3 772	106	638	350	2 771	2 541
Other	538	479	671	17	21	4	290	309
Total	**52 985**	**78 042**	**76 323**	**6 555**	**6 079**	**9 079**	**65 671**	**50 399**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Aug	
				Jun	Jul	Aug	1984	1983
Industrial countries	**40 861**	**63 062**	**60 303**	**6 168**	**4 892**	**7 627**	**56 790**	**39 462**
Australia	991	2 250	2 529	303	82	319	1 574	1 233
Austria	1 557	1 668	1 290	246	335	—	1 662	1 053
Belgium	527	211	1 116	400	—	—	750	474
Canada	10 648	11 979	7 487	455	298	327	4 444	4 413
Denmark	695	1 269	1 719	116	747	421	2 771	862
Finland	672	815	866	167	—	135	1 011	700
France	3 156	8 386	6 461	299	817	1 026	5 164	4 772
Germany	279	1 101	3 095	131	46	337	1 426	2 258
Ireland	517	625	959	37	—	300	564	290
Italy	1 108	2 214	1 565	225	—	610	1 496	481
Japan	6 928	8 397	13 977	1 884	1 293	1 168	13 521	10 002
Netherlands	630	894	935	—	—	—	677	676
New Zealand	1 107	1 375	645	32	144	—	619	455
Norway	530	832	624	100	18	75	560	471
Portugal	30	206	76	43	21	—	245	46
South Africa	92	374	548	139	—	76	703	397
Spain	444	747	1 470	—	70	—	772	737
Sweden	2 050	2 479	3 809	804	45	332	4 914	2 552
United Kingdom	1 408	1 201	1 398	—	237	63	2 336	778
United States	6 770	14 538	7 325	693	659	2 325	10 278	5 001
*Other**	722	1 501	2 409	94	80	113	1 303	1 811
Developing countries	**4 886**	**5 003**	**2 535**	**148**	**256**	**378**	**1 811**	**1 705**
Latin American countries	**3 658**	**2 480**	**71**	**19**	**—**	**46**	**96**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	19	—	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	—	—	46	77	50
Asian countries	**1 068**	**2 075**	**2 252**	**129**	**256**	**282**	**1 625**	**1 482**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	46	—	71	192	40
Indonesia	97	412	328	30	—	—	50	78
Korea	323	172	556	21	45	170	531	395
Malaysia	—	807	883	32	123	—	540	724
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	265	—	46	41	270	205
Other	85	181	40	—	42	—	42	40
Middle Eastern and African countries	**160**	**448**	**212**	**—**	**—**	**50**	**90**	**152**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	50	50	17
Centrally planned countries	**75**	**65**	**75**	**—**	**—**	**50**	**50**	**75**
China	—	65	50	—	—	—	—	50
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	50	50	25
International organizations****	**7 163**	**9 912**	**13 410**	**239**	**831**	**1 024**	**6 880**	**9 157**
Total	**52 985**	**78 042**	**76 323**	**6 555**	**6 079**	**9 079**	**65 671**	**50 399**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States companies											
Eurodollar	n.a.	11.16	11.59	11.43	11.77	12.28	12.53	13.33	13.27	12.70	11.97
Euromark	n.a.	7.24	7.34	7.34	7.26	7.24	7.29	7.55	7.48	7.74	7.40
Swiss franc	n.a.	5.61	5.73	5.58	5.61	5.63	5.59	5.85	5.69	5.68	5.60
European governments											
Eurodollar	n.a.	12.53	12.65	12.33	12.58	12.96	13.27	14.18	14.14	13.61	13.03
Euromark	n.a.	8.10	8.12	8.08	7.63	7.82	7.88	8.03	8.07	8.31	7.94
Swiss franc	n.a.	5.36	5.59	5.43	5.33	5.34	5.35	5.59	5.55	5.43	5.35
European currency unit	n.a.	n.a.	11.77	11.53	11.08	11.29	11.49	11.40	11.63	11.80	11.58

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984			Jan-Aug	
				Jun	Jul	Aug	1984	1983
Industrial countries	**86 022**	**42 571**	**38 742**	**8 706**	**5 799**	**2 359**	**58 587**	**22 216**
Australia	1 680	4 721	2 924	—	100	75	1 081	2 062
Belgium	360	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	—	750	—	1 772	200
Denmark	1 661	789	1 586	—	—	25	1 043	1 586
Finland	463	631	283	15	—	—	15	228
France	3 912	5 703	1 700	1 050	—	864	2 656	1 255
Greece	1 039	770	1 085	—	210	—	610	836
Ireland	1 361	401	764	—	71	—	71	621
Italy	6 030	3 757	2 980	36	436	105	1 706	1 893
Norway	713	1 769	1 236	—	—	—	24	576
Portugal	1 590	1 388	913	400	—	—	696	300
South Africa	287	1 479	752	—	40	10	360	702
Spain	3 242	1 849	3 041	144	100	50	1 911	2 179
Sweden	1 867	649	3 188	4 000	—	19	4 419	3 101
United Kingdom	747	1 635	1 328	168	911	39	2 852	954
United States	54 784	6 516	12 948	2 845	3 110	916	36 778	4 197
Yugoslavia	684	719	615	—	51	—	61	615
*Other**	1 490	4 785	1 549	48	20	256	2 532	828
Developing countries	**45 264**	**41 519**	**32 937**	**740**	**895**	**1 555**	**21 450**	**27 696**
Latin American countries	**30 152**	**26 719**	**15 406**	**120**	**291**	**405**	**12 265**	**14 681**
Argentina	2 534	1 565	1 750	—	—	—	—	1 750
Brazil	5 751	5 716	4 475	—	25	103	6 628	4 475
Chile	2 204	1 194	1 319	—	—	—	784	1 319
Colombia	1 030	741	549	—	—	200	404	310
Ecuador	934	815	431	—	—	80	80	431
Mexico	7 530	7 953	5 138	50	10	10	3 870	5 100
Peru	1 407	1 069	500	—	—	—	10	466
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	70	256	12	489	593
Asian countries	**10 288**	**8 403**	**8 828**	**380**	**404**	**864**	**6 093**	**6 756**
India	377	284	809	6	15	59	305	610
Indonesia	725	1 250	1 467	—	100	381	1 313	1 441
Korea	2 824	2 923	3 250	95	120	283	2 528	1 767
Malaysia	1 725	1 909	950	19	—	—	669	860
Pakistan	350	455	365	—	—	100	100	340
Philippines	1 257	635	819	—	—	—	—	715
Thailand	692	268	349	253	—	21	541	249
Other	2 338	679	819	7	169	20	637	774
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**240**	**200**	**286**	**3 092**	**6 259**
Algeria	—	26	1 934	180	—	—	200	726
Egypt	63	353	335	—	—	—	19	285
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 736
Turkey	100	2 042	1 106	—	100	—	700	501
United Arab Emirates	363	93	876	—	—	—	39	715
Other	1 722	3 280	2 451	60	100	286	2 019	2 070
Centrally planned countries	**1 791**	**765**	**1 212**	**30**	**139**	**50**	**2 190**	**937**
East Germany	470	8	392	15	—	—	90	392
Hungary	550	340	683	—	75	—	872	408
Soviet Union	25	374	68	—	—	—	528	68
*Other****	746	43	69	15	64	50	700	69
International organizations***	**302**	**160**	**1 321**	—	—	—	—	**1 321**
Total	**133 379**	**85 015**	**74 212**	**9 476**	**6 833**	**3 964**	**82 227**	**52 170**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON Institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983			1984
							Jun	Sep	Dec	Mar
Gross market size	740	949	1 233	1 524	1 861	2 057	2 045	2 115	2 144	2 257
Nonbanks	135	174	245	327	428	474	489	515	540	603
Official monetary institutions	100	115	145	150	132	90	84	90	89	90
Other banks	505	660	843	1 047	1 301	1 493	1 472	1 510	1 515	1 564
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	78

Central bank discount rates

at or near end of month

	1981	1982	1983	1984					Current	
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep 20 1984	effective since
United States	12.00	8.50	8.50	9.00	9.00	9.00	9.00	9.00	9.00	Apr 9, 84
Canada	14.66	10.05	9.96	10.84	11.54	12.36	12.98	12.38	12.28	Sep 20, 84
Austria	6.75	4.75	3.75	4.25	4.25	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.00	4.00	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	12.00	12.00	12.00	13.00	13.00	13.00	Jul 27, 84
Italy	19.00	18.00	17.00	16.00	15.50	15.50	15.50	15.50	16.50	Sep 4, 84
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	8.50	8.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	8.50	9.00	8.88	11.88	10.38	10.38	Aug 17, 84
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	98.50	128.54	183.75	167.37	167.37	167.37	199.94	199.94	199.94	Jul 1, 84
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	9.50	9.64	9.88	10.97	n.a.	10.97	Jul, 84
Singapore	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.37	8.95	9.47	9.56	9.59	9.91	10.29	10.32	11.06	11.23	11.64
Canada	14.53	10.63	8.78	9.60	9.63	9.50	9.72	9.78	10.75	11.41	12.25
Austria	7.50	6.00	5.75	5.87	5.87	6.00	6.38	6.50	6.50	6.50	6.63
Belgium	12.78	9.43	8.65	8.03	7.57	11.20	11.37	9.13	9.80	10.22	10.72
Finland	11.30	11.50	16.70	17.50	17.50	17.50	16.77	16.53	16.80	16.53	16.50
France	15.46	12.88	12.27	12.39	12.30	12.48	12.15	12.04	12.12	11.51	11.43
Germany	10.65	6.07	5.60	5.61	5.55	5.52	5.53	5.53	5.53	5.57	5.53
Ireland	16.88	14.54	12.19	12.12	11.25	10.75	12.12	11.75	10.94	12.00	11.88
Italy	20.63	19.00	17.88	17.91	17.67	17.25	17.25	16.93	16.75	16.75	16.63
Netherlands	10.67	5.31	5.84	5.77	6.12	6.13	5.79	5.62	5.85	5.98	5.85
Norway	15.60	11.00	13.00	12.80	11.45	13.00	13.00	13.00	12.50	12.00	12.50
Spain	18.73	20.30	16.41	10.16	18.14	14.75	11.54	11.93	11.91	11.15	12.69
Sweden	13.82	8.63	11.48	11.36	10.90	10.15	9.65	11.50	13.50	12.95	13.50
Switzerland	3.38	1.25	1.88	1.00	1.62	2.25	2.00	2.25	2.13	2.88	2.00
United Kingdom	9.13	6.70	7.77	7.31	7.12	7.08	6.25	3.25	5.00	8.63	10.58
Australia	12.84	11.04	4.56	7.09	9.05	11.21	13.45	13.30	11.44	11.34	10.94
Japan	6.70	6.92	6.47	6.05	6.04	6.05	5.88	5.74	5.91	6.03	6.15
South Africa	12.75	14.15	16.06	17.13	17.25	17.25	17.25	17.25	17.25	18.06	20.30
Argentina	84.93	155.32	178.30	138.61	128.53	128.52	161.88	161.88	161.88	194.56	194.56
Brazil	103.74	150.42	184.69	224.27	295.48	268.44	217.98	198.78	228.75	283.79	242.73
Hong Kong	10.75	9.13	13.90	7.25	3.31	7.32	9.00	11.00	13.00	23.40	11.30
Korea	14.40	13.84	11.40	11.30	10.50	10.00	11.70	11.90	11.90	11.70	11.70
Philippines	14.70	16.12	31.18	25.52	21.76	9.99	17.93	33.17	40.17	39.79	n.a.
Singapore	3.96	11.45	7.05	6.92	6.83	7.64	8.13	7.82	6.80	7.67	8.05

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.90	8.15	9.28	9.20	9.48	10.09	10.02	10.13	10.29	10.67	11.06
Canada	14.41	9.80	9.71	9.73	9.79	10.53	10.59	11.29	12.11	12.73	12.13
Belgium	16.00	12.25	10.85	10.85	12.25	12.25	11.75	11.75	11.75	11.75	11.50
Ireland	17.35	14.70	11.63	11.80	12.16	12.59	12.35	12.10	12.08	13.23	12.81
Italy	21.36	19.11	16.95	15.74	15.81	15.61	15.45	14.99	n.a.	n.a.	n.a.
Netherlands	9.75	5.62	5.63	5.75	6.12	5.88	5.38	5.63	5.88	5.75	5.75
Spain	n.a.	15.28	14.46	13.61	13.66	13.20	12.64	12.04	11.17	10.30	9.44
Sweden	n.a.	12.90	11.75	11.10	11.15	10.80	10.99	11.83	14.20	14.12	14.06
United Kingdom	15.31	9.90	9.08	9.08	9.08	8.59	8.59	9.99	9.08	11.77	10.22
Australia	13.27	9.39	8.54	9.43	10.35	13.11	11.89	11.81	11.24	10.60	9.74
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	14.55	14.62	18.43	18.55	18.57	18.57	18.64	18.64	18.44	19.69	23.12
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15
Mexico	33.33	57.44	53.78	53.02	50.32	46.16	46.63	51.56	n.a.	n.a.	n.a.
Philippines	13.22	14.54	15.99	16.27	17.01	17.25	17.61	20.81	28.53	31.27	n.a.
Singapore	3.03	2.74	2.59	2.67	2.65	2.66	2.87	3.00	3.01	3.00	3.01

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.78	8.81	9.75	9.36	9.68	10.30	10.50	10.94	11.63	11.36	11.58
Canada	15.25	9.95	9.87	9.85	9.95	10.70	10.75	11.55	12.50	13.05	12.30
Belgium	16.00	12.35	11.00	11.00	12.50	12.35	11.90	11.90	11.90	11.90	11.50
France	15.25	12.75	12.19	12.25	12.54	12.56	12.31	12.25	12.06	11.63	11.18
Germany	10.50	6.20	6.30	6.10	5.85	5.80	5.70	6.25	6.10	6.05	5.90
Ireland	18.50	15.75	12.19	12.25	12.56	13.00	12.88	12.75	12.50	13.75	13.25
Italy	21.00	19.00	17.88	17.88	17.00	17.25	17.25	16.75	16.63	16.63	16.63
Netherlands	11.00	5.25	6.00	5.94	6.00	6.06	5.88	6.13	6.19	6.44	6.38
Portugal	13.80	15.04	24.11	24.06	23.79	23.99	24.04	24.00	25.25	24.65	24.53
Spain	15.52	16.55	18.48	17.30	18.30	16.42	15.07	14.66	13.45	12.91	13.19
Switzerland	10.12	3.87	3.87	3.62	3.75	3.94	3.88	4.25	4.50	4.88	5.38
United Kingdom	15.69	10.50	9.31	9.37	9.21	8.88	8.81	9.75	9.44	12.31	10.69
Australia	16.00	10.65	9.50	11.00	13.00	13.55	14.20	13.55	12.70	12.50	11.10
Japan	6.30	6.80	6.42	6.30	6.40	6.40	6.20	6.35	6.32	6.33	6.32
New Zealand	16.05	16.75	12.10	13.85	15.00	14.75	15.00	17.00	17.00	16.50	15.25
South Africa	15.47	15.26	19.12	19.07	19.01	18.30	19.07	18.00	18.74	20.78	23.39
Chile	34.54	71.44	22.42	19.56	14.03	11.35	18.16	18.16	18.16	19.56	18.16
Hong Kong	14.18	10.13	12.84	11.37	7.87	7.90	9.93	12.38	13.13	17.06	12.83
Indonesia	14.48	18.50	19.50	19.00	20.50	19.50	18.50	19.00	20.00	21.00	n.a.
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	9.47	8.51	8.95	9.10	9.20	9.70	10.20	10.50
Philippines	17.70	15.96	15.61	16.08	17.41	17.14	15.83	26.51	17.93	19.55	n.a.
Singapore	7.81	8.69	8.44	7.75	7.75	8.50	8.63	9.13	9.00	9.06	9.03
Taiwan	10.94	9.94	7.65	9.22	9.42	7.81	7.31	6.15	7.77	7.27	6.62
Thailand	14.29	12.25	16.00	16.50	17.00	15.50	13.50	14.00	13.50	13.50	13.50

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.62	8.25	9.70	9.40	9.77	10.35	10.50	11.50	11.70	11.38	11.58
Canada	15.20	9.85	9.82	9.80	9.90	10.65	10.70	11.50	12.45	13.00	12.25
Austria	9.63	6.25	6.50	6.50	6.25	6.44	6.56	6.88	6.88	6.88	6.94
Belgium	15.50	12.25	11.25	10.87	12.37	11.75	11.50	11.88	12.50	11.63	11.25
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.72	7.76	7.76	7.76	7.55	7.55	7.50	7.30
Germany	9.50	6.00	5.90	5.65	5.40	5.35	5.35	5.65	5.60	5.55	5.40
Ireland	18.38	15.25	11.75	11.87	12.37	12.63	12.50	12.50	12.25	13.13	12.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	11.64	11.64	11.64	11.64
Netherlands	11.00	5.37	6.13	5.94	6.00	6.06	5.75	6.00	6.13	6.31	6.13
Norway	12.75	13.50	12.75	13.00	12.50	12.75	12.75	12.50	12.50	12.25	12.25
Portugal	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	28.00	28.00	28.00
Spain	11.78	12.53	12.62	12.49	12.52	12.35	12.64	12.49	12.75	n.a.	n.a.
Sweden	12.65	12.15	11.70	11.00	11.10	10.65	10.65	11.25	13.65	13.70	13.55
Switzerland	8.75	3.00	3.50	3.25	3.25	3.00	3.00	3.25	3.25	4.25	4.88
United Kingdom	15.69	10.31	9.31	9.37	9.25	8.88	8.91	9.94	9.44	12.25	10.59
Australia	15.65	10.20	10.40	11.25	12.20	13.13	13.56	13.43	12.80	12.28	10.85
Japan	6.50	7.00	6.50	6.52	6.63	6.50	6.35	6.50	6.45	6.47	6.46
New Zealand	15.50	16.50	11.50	13.75	10.00	10.00	14.75	16.50	15.00	15.00	15.50
South Africa	14.75	15.25	20.13	19.45	18.88	19.38	18.88	18.78	18.65	20.50	23.25
Argentina	86.76	103.42	176.41	139.91	121.66	121.66	158.17	158.17	158.17	188.58	188.58
Brazil	110.05	21.00	23.00	26.00	25.00	23.00	19.00	22.00	22.00	20.00	21.00
Chile	36.87	57.72	22.28	19.74	12.95	11.09	18.16	18.16	18.16	19.56	18.16
Hong Kong	12.50	7.50	9.00	7.00	5.50	5.50	8.00	9.50	12.50	12.50	9.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	7.75	7.75	7.83	7.83	8.70	8.83	8.88	8.95
Mexico	31.82	52.54	54.70	53.86	51.21	47.63	47.30	49.00	n.a.	n.a.	n.a.
Philippines	13.35	14.10	14.96	14.33	15.57	15.37	15.30	15.92	20.83	19.92	n.a.
Singapore	7.50	8.25	7.44	7.13	7.19	7.69	8.01	8.38	8.19	8.19	8.19
Taiwan	10.75	7.50	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.75	6.75
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	11.50	11.50	11.00	11.50	12.00	12.00	12.50	12.50

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	14.33	10.61	12.00	11.72	12.13	12.49	12.79	13.58	13.75	12.97	12.69
Canada	15.27	11.69	12.02	11.92	12.40	13.06	13.31	13.93	13.81	13.41	12.89
Austria	10.37	8.81	8.02	7.96	7.88	7.88	7.94	7.99	8.06	8.09	8.10
Belgium	13.99	12.66	11.89	11.97	12.35	12.20	12.08	12.19	12.13	12.05	11.82
Denmark	20.91	20.14	12.96	13.39	14.02	14.78	14.27	15.20	15.54	15.33	15.17
Finland	10.98	10.64	11.16	11.17	10.62	11.19	10.80	11.20	11.29	11.35	10.83
France	16.44	15.40	13.96	13.76	13.78	14.05	13.81	13.82	13.99	13.91	13.58
Germany	9.71	7.90	8.38	8.33	8.13	8.18	8.18	8.29	8.25	8.27	7.97
Ireland	18.28	14.54	14.25	13.94	14.16	14.08	14.14	14.49	14.58	14.89	14.95
Italy	21.39	19.70	17.69	16.91	16.34	15.69	15.74	15.71	n.a.	n.a.	n.a.
Netherlands	11.28	8.16	8.58	8.57	8.56	8.40	8.45	8.52	8.68	8.69	8.50
Norway	12.37	13.32	12.50	12.50	12.25	12.25	12.25	12.00	12.00	12.00	12.00
Portugal	17.39	16.63	22.11	21.19	21.57	21.97	22.37	21.82	21.90	n.a.	n.a.
Spain	16.20	15.92	18.71	18.33	18.68	18.74	18.64	18.69	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	11.70	11.50	11.50	11.65	12.60	14.01	14.19	13.70
Switzerland	5.40	4.22	4.54	4.50	4.56	4.37	4.47	4.61	4.69	4.66	4.58
United Kingdom	15.02	10.62	9.94	9.97	10.04	9.89	10.16	10.73	10.81	11.17	10.43
Australia	15.00	13.00	13.65	13.70	14.05	14.00	14.00	14.10	14.00	13.30	13.10
Japan	8.11	7.96	7.45	7.45	7.45	7.25	7.30	7.60	7.50	7.47	7.45
New Zealand	12.55	12.84	10.50	10.84	11.33	10.42	8.97	8.50	10.06	10.25	15.20
South Africa	13.33	11.31	13.64	14.13	13.80	13.78	14.46	14.68	14.72	15.93	16.04
Philippines	13.01	13.64	14.47	14.42	14.61	13.67	18.47	18.45	19.04	12.19	n.a.
Venezuela	12.50	15.00	13.50	13.00	13.00	13.00	13.50	14.00	14.00	14.00	14.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	15.75	11.50	11.00	11.00	11.00	11.50	12.00	12.50	13.00	13.00	13.00
Canada	16.50	12.50	11.00	11.00	11.00	11.50	11.50	12.00	12.50	13.50	13.00
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	13.75	14.75	14.75	14.75	14.75	14.75	14.75	14.25
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.84	8.95	10.18	10.30	10.36	10.38	10.42	10.43	10.48	10.48	n.a.
France	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.00
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	22.50	20.75	18.75	18.50	18.50	17.50	17.50	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.75	6.75	6.75	6.50	6.50	6.50	6.75	6.75
Norway	13.75	14.50	13.50	13.63	13.75	13.30	13.30	12.75	13.00	12.75	12.50
Portugal	20.50	23.50	30.00	30.00	30.00	30.00	30.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	20.01	20.55	19.44	17.96	17.55	16.19	15.49	15.27
Sweden	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.00	9.00	8.50	8.50	9.00	9.25	12.00	10.50
Australia	15.75	15.00	12.75	11.50	13.00	14.00	15.50	15.00	14.75	14.50	14.00
Japan	6.95	6.28	5.89	5.81	5.77	5.76	5.75	5.74	5.73	5.73	5.75
New Zealand	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	12.50
South Africa	17.00	18.00	20.00	20.00	20.00	20.50	20.50	20.50	20.50	22.00	25.00
Argentina	92.60	109.50	188.58	152.08	133.83	133.83	170.33	170.33	170.33	206.83	206.83
Brazil	152.40	23.81	24.00	24.00	24.00	24.00	23.00	26.00	26.00	22.50	23.50
Chile	61.43	85.19	35.11	31.43	22.75	21.26	34.35	33.04	32.30	32.30	30.38
Hong Kong	16.00	10.50	13.50	11.50	10.00	10.00	12.00	13.75	17.00	17.00	14.00
Indonesia	19.25	22.00	19.75	20.00	21.25	21.50	20.75	21.00	20.75	21.25	22.75
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50	11.50
Mexico	31.81	46.12	56.44	55.95	55.16	53.11	51.10	50.12	50.38	50.69	50.93
Philippines	18.00	18.00	18.00	18.00	18.00	22.00	22.00	24.00	24.00	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.05	9.03	9.20	9.63	9.98	10.08	10.10	10.10
Taiwan	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.00	16.50	17.00	17.00	17.00	17.00	17.00	17.00
Venezuela	15.50	17.00	16.00	16.00	14.50	14.50	15.00	15.00	15.00	15.50	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	15.50	11.75	12.63	12.38	12.88	13.25	13.88	13.58	14.50	13.38	13.20
Canada	16.18	12.74	12.89	12.78	13.27	13.84	14.13	14.59	14.69	13.91	13.39
France	17.33	15.91	14.06	13.96	14.28	14.37	14.23	13.88	13.77	13.77	13.77
Germany	10.50	8.20	8.30	8.30	8.00	8.00	8.00	8.00	8.00	8.00	7.90
Netherlands	11.03	7.80	8.51	8.44	8.39	8.26	8.28	8.35	8.43	8.49	8.42
Norway	13.36	14.13	13.25	13.25	13.00	13.00	13.00	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	20.19	20.69	21.90	22.54	22.06	21.63	21.47	21.78
Sweden	12.94	13.37	12.21	12.15	11.96	11.84	12.04	12.23	12.41	12.73	12.78
Switzerland	n.a.	4.87	4.94	4.93	4.91	4.85	4.91	5.10	5.07	5.10	5.16
United Kingdom	16.65	12.34	11.57	11.52	11.61	11.29	11.48	12.11	12.69	13.06	12.15
Australia	16.50	15.00	13.50	14.00	14.50	14.50	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.05	7.04	6.92	6.89	7.16	7.13	7.09	7.06
Korea	26.90	15.90	14.20	14.30	14.00	13.60	13.00	13.20	13.70	14.00	14.50
Venezuela	17.00	18.00	18.00	18.00	17.50	17.50	17.50	18.00	18.00	18.00	18.50

Key to data in tables

I. International markets

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

The *country of the borrower* is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

Data on *Eurocurrency market size* are based on foreign currency liabilities of banks in major European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States (international banking facilities only).

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 this rate is based on negotiated sales to banks.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — administrative ceiling on 90-day time deposits until June 1981; ceilings on time deposits with maturity of 730-days and below were lifted from July 1981 to September 1981; new series as of October 1981, weighted average interest rate on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Key to data in tables — continued

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond until December 1979. New series as of January 1980, average yield of national government bonds for maturities of 10-years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia - - approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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